

Borealis Exploration Limited

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Annual Report

FOR THE YEAR ENDED MARCH 31, 1987

HIGHLIGHTS

- A large-scale \$10 million program is in progress on Borealis' extensive mineral holdings in the Keewatin District in Canada's Northwest Territories. A comparable program is planned for 1988 by Borealis and two other companies which have taken farm outs from Borealis.
- Test mining of a bulk sample and sample concentration test milling are being carried out on Borealis' original discovery at **Fat Lake**.
- An annual **dividend** is being initiated with the payment on September 15 of one share of Noble Peak Resources Ltd. for every 14 shares of Borealis. After payment of the dividend, Borealis will continue to hold approximately 2.3 million Noble Peak shares.
- Following a successful spring, drilling program at the farmed out **Happy Lake** property, Noble Peak Resources Ltd., has added a second drill to the program.
- Drilling is also planned at the **Whale Cove** property, farmed out to Faraway Gold Mines Ltd.
- Increasing prices for gold and major metals on world markets enhance prospects for the over 1,000,000 acres of mineral properties owned and farmed out by Borealis in the Keewatin District and on Melville Peninsula.

President's Report to the Shareholders 7" 2

The scope and extent of the gold and base metal exploration being carried out on approximately 800,000 acres of mineral properties owned and farmed out by Borealis Exploration Limited in the Keewatin may well be unprecedented in the history of Keewatin District in Canada's Northwest Territories.

The Borealis 1987 program has been provided with \$6 million in equity funding, with a further \$5.5 million committed for exploration in 1988. Borealis' farm out partners, Noble Peak Resources Ltd., and Faraway Gold Mines Ltd., have obtained an additional \$4 million in equity funding with \$5 million to be provided in 1988. This financing is being provided by means of the government of Canada's flow-through tax incentive mechanism.

While increasing equity funding, the company has continued its policy of minimizing dilution to outside shareholders. Since the fiscal year end, a total of 176,008 Borealis shares at \$5US per share were acquired from the Catawba Corporation. The option to purchase the remaining 467,000 shares still held by the Catawba Corporation has been extended to July 15, 1988, with 10,000 shares at \$7.50US every three months and the balance to be purchased at \$8.00US per share.

The availability of funding has permitted Borealis to expand its exploration activity and to begin a bulk sample mining and sample concentration operation on the Fat Lake Deposit at the Company's original discovery site.

During the first year of exploration, the **Noble Peak farm out properties** have recorded considerable success. Under the terms of the option agreement, Noble Peak can earn a 50% interest prior to pay-out in an area of mutual interest by bearing 100% of the exploration and development costs. After pay-out, the Noble Peak interest will be reduced to 40% and Borealis will retain a 60% interest in these properties.

Under the terms of the option agreement, Borealis acquired 2.5 million shares of Noble Peak Resources, Ltd. Borealis has initiated an annual dividend, and approximately 7% of its shares in Noble Peak Resources Ltd., will be paid out as a first annual dividend to Borealis shareholders of record as of August 14, 1987. The dividend will be paid on September 15, 1987 at the rate of one share of Noble Peak Resources Ltd, for each fourteen shares of Borealis Exploration Limited. As of August 11, Noble Peak shares closed trading at \$9.25.

After payment of the initial dividend Borealis will retain approximately 2,300,000 Noble Peak Shares. As per the farm out agreement, these shares remain in a voting trust until 1989.

Borealis ownership of 2.5 million Noble Peak shares and its retained 60% interest in the farmed-out acreage have become major assets of this company.

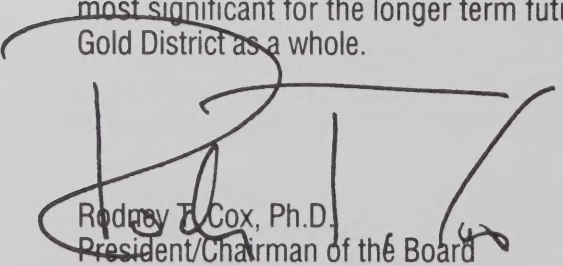
In 1987, a second farm out was negotiated with **Faraway Gold Mines Ltd.**, on claims in the **Whale Cove** area. Under the option agreement, which is subject to Faraway shareholder approval, Borealis acquired 2.2 million shares in Faraway Gold Mines with an option to acquire 200,000 additional shares. Borealis retains a 60% interest in the claims after pay-out.

Geological mapping and sampling of the Whale Cove properties is now in progress, and drilling is planned for later in the year.

Borealis is continuing to seek other farm out and joint venture partners for the development of its Keewatin holdings.

The rise in the price of gold on the world markets through the \$450US level further highlights the importance of the major increase in activity on the Company's projects in the Keewatin District. Also enhancing the value of all of the properties held by Borealis is a major improvement in the outlook for mineral commodities generally, with higher prices for such important metals as nickel, lead, and copper.

The results of this increased activity by Borealis and its farm-out partners, should prove most significant for the longer term future of the Company and for the future of the Keewatin Gold District as a whole.



Rodney T. Cox, Ph.D.
President/Chairman of the Board
Borealis Exploration Limited

REVIEW OF PROJECTS

Fat Lake

In 1987, Borealis has concentrated much of its efforts on the original discovery site at Fat Lake. Borealis' strategy is to develop Fat Lake while maturing other prospects for development either by Borealis or through farm out agreements with other companies.

Test mining and test milling is scheduled on gold zones delineated in the Fat Lake quartz veins during the the 1986 program. Further drilling and exploration work is continuing on the Fat Lake stacked shears and on several other structures in the vicinity of Fat Lake which show considerable promise.

DRILLING

Drill holes completed in the Fat Lake stacked shears during the spring program confirmed continuation of the gold mineralized zones in a number of the quartz veins below a 200 foot depth. Drilling is planned for later this year to further delineate potential ore zones among additional quartz veins in the Fat Lake area.

TEST MINING

A bulk sample is being mined from a gold-bearing zone defined in the 1986 program and confirmed by 1987 spring drilling. A shaft approximately 8ft x 8ft is being driven at a twenty degree decline to a depth of about 65 ft below the surface. A bulk sample will be produced from the target ore zone above this depth using shrinkage stope mining. This work will provide ore for testing of gold recovery processes, invaluable data on the mining characteristics of the ore and waste zones, and definitive detail on distribution of ore through a significant volume of the vein system.

TEST MILLING

A test mill nominally rated at 100 short tons per day is being installed to process the bulk sample into metal and sulphide concentrates for further testing and sale. The mill was designed using data from metallurgical tests in 1986, including a confirmation test using prototypes of the concentrating equipment installed in the new mill.

The mill was preassembled and mechanically tested by Minpro Ltd in Mississauga, Ontario, then dismantled and airlifted to the site where it will be reassembled for operation. Construction of the mill is expected to be completed in late September, and startup and testing on bulk sample ore carried out in October.

OTHER STRUCTURES IN THE VICINITY OF FAT LAKE

In addition to the test mining and milling operation on the Fat Lake stacked shears, exploration and sampling work are continuing on other gold-bearing structures near Fat Lake, three of which have shown considerable promise:

- The South Gossan - a banded iron formation with extensive sulfide and carbonate alterations, with up to 1.19 oz/ton gold;
- The White Whale - quartz-carbonate-gold veins with assays up to 26.5 oz/ton gold reported from a spot composite trench sample showing abundant visible gold;
- Lac Francois and Northern Shears - major shear zones marked either by the presence of exhalite sediments or along the lithological boundary.

HAPPY LAKE PROJECT

Borealis participates in this project in two ways - through its ownership of 2.5 million Noble Peak Resources shares, and the option agreement whereby Borealis retains a 60% interest after pay-out.

Noble Peak expects to spend \$3.3 million in the Keewatin during the 1987 exploration program. A further \$3 million has been provided for 1988 exploration activities.

Norman Ursel P. Eng., president of Noble Peak Resources, reports that results of a spring drilling program indicate a gold enriched mineral system. An expanded drilling program with a second drill is being carried out through the summer season.

Significant gold intercepts in the spring drilling include:

- 1) Hole 87-24 of Zone 1 intersected 16.4 ft. averaging 0.58 oz. gold per ton.
- 2) Hole 87-22 of Zone 2 intersected 7.2 ft. averaging 0.15 oz. gold per ton.
- 3) Hole 87-2 of Zone 4 intersected 10.3 ft. averaging 0.35 oz. gold per ton.

In addition to the expanded drilling program on a number of targets in the Happy Lake area, Noble Peak is carrying out extensive mapping and sampling to locate and define additional prospects on the farmed-out acreage.

WHALE COVE PROJECT

Faraway Gold Mines Ltd., has optioned from Borealis five mineral claims covering much of the Whale Cove Peninsula.

Under the option Agreement Faraway may earn up to a 40% interest after pay-out in the properties, by spending \$1.5 million in three years and by bearing 100% of the exploration and development costs. Borealis retains a 60% interest in the property. Under the terms of the option agreement Borealis will receive 2,200,000 additional shares in exchange for 30,000 shares of Borealis. This agreement is subject to regulatory and shareholder approval. Borealis owns or has options on an additional 200,000 shares of Faraway and subsequent to the farm out agreement, Rodney T. Cox and Jasi Nikhanj have joined the management of Faraway.

Because of its accessibility, the Whale Cove Peninsula has seen a great deal of intermittent exploration activity since 1927.

Early reports confirm occurrences of numerous high grade gold showings. At one location 2.7 kg (86.8 oz.) of gold was obtained from an 1100 lb. bulk sample taken from a trench 10 foot deep and 20 foot long.

The Peninsula has high grade gold, copper, and molybdenum prospects. Numerous occurrences of high grade copper, assaying 5-15% copper per ton, and nickel assaying 0.1% to 5.22% have been reported.

Faraway Gold's independent consulting geologist, J.W. Campbell, in his July 15, 1987 report, confirms the presence of high grade gold showings.

Currently Derry, Michener, Booth and Wahl has been contracted to carry out a comprehensive geological mapping and sampling of the Whale Cove mineral claims and to recommend drilling targets.

A total of 3000 - 5000 feet of diamond core drilling is planned for the 1987 field season and pending the results of the current field season, an expanded 1988 drilling program will be planned to delineate mineable areas of mineralization.

OTHER PROJECTS

In addition to the work on Fat Lake, the farmed out properties, and the Company's iron deposits on Melville Peninsula, other promising areas have been identified on Borealis held lands in the Keewatin ranging from the extensive gold-bearing quartz veins on Morso Island to the paleo-placer gold and uranium-bearing pyrite rich conglomerates near Henik Lake. The 1987 exploration program outside the Fat Lake area is designed to delineate additional targets for detailed follow-up and drilling in 1988. Some areas of particular interest include:

PISTOL BAY

The Pistol Bay properties are well-located between the infrastructure and towns of Whale Cove and Rankin Inlet. The Pistol Bay Claims are known to have extensive mineralized zones distributed over large areas. While there are vein type high grade gold occurrences on Pistol Bay, the focus of exploration effort is on large tonnage sulphide based gold/copper/nickel mineralization potential.

Considerable information is available from previous exploration by other companies. A 1985 report by consulting geologist J.W. Campbell reported these mineralized zones.

- Assays up to 4.52% copper and 0.54 oz. gold per ton were obtained in sampling of trenches in a 60 ft. wide sheared contact between a pyroxenite sill and basalt.

- A 30 ft wide brecciated quartzite had assays to 0.4 oz. gold per ton, 1.48% copper and 0.68 oz. silver.

- In a 450 ft long zone quartz veins of 18 inches to 4 ft width had 1.3 oz. gold, 1.6 oz. silver, and 0.68% copper per ton. The zone includes other veins.

- Assays of 0.4 oz. to 2.4 oz. gold per ton were obtained in a zone of sheared basaltic tuff with pyrite. In this area gold mineralization is not the result of quartz veining or flooding but seems to be sulphide related.

Geological mapping and prospecting is being carried out with drilling planned for later this year or in 1988.

KAMINAK LAKE EAST AND WEST

At Kaminak Lake East, Borealis geologists have discovered large gold-bearing quartz veins. Assays up to 0.30 oz. gold per ton have been obtained.

At Kaminak Lake West, grab samples obtained by Borealis gave values of up to 3.08 oz. gold per ton. It is of interest to note that an earlier Giant Yellowknife drill hole under a surface showing which assayed 0.13 oz. gold per ton intersected one foot of 0.3 oz. per ton gold.

Two weak conductors were outlined by ground and airborne EM and Mag surveys for massive sulphides carried out in 1975 by Noranda Exploration Company Limited in the Kaminak area.

BANNOCK LAKE

Borealis geologists are evaluating gold showings reported in exploration done by others in 1961 and 1973. In the 1973 exploration, 10 trenches were blasted along a shear zone. Assays of 1.68 oz. and 0.65 oz. gold per ton were reported and visible gold was observed.

RANKIN INLET

Borealis has taken approximately 50,000 acres in claims in the Rankin Inlet area. Borealis land appears to overlay part of the ore body mined by the North Rankin Nickel Mines Ltd.

North Rankin Nickel Mines Ltd. mined 368,000 tonnes of ore which produced 9,660 tonnes of nickel and 2,630 tonnes of copper between 1957 and 1962 when the mine closed. No platinum was recovered even though the initial reserve figures include 109,000 tonnes of ore grading 4.63% nickel, 1.22% copper, and 0.11 oz. per ton platinum.

The area continues to show good potential for nickel, copper, and platinum. Asamera Incorporated which has taken a farm out from Comaplex Resources Ltd. on adjacent claims, is now conducting bench scale tests on tailings for the recovery of platinum group elements.

MELVILLE PENINSULA

The Company's magnetite deposits on Melville contain an estimate 4.3 billion tons of open pit magnetite reserves and drilled reserves of over 400 million tons with significant precious metal values. The development of a magnetite project is a very capital intensive undertaking and is beyond the capacity of Borealis at this time. The Company continues to seek outside participation on the Magnetite Project and during the last year there has been renewed interest in the magnetite. Over the short term we are cautiously optimistic. Over the long term, the magnetite deposits on Melville Peninsula remain a major resource for this Company.

Auditors' Report

To the Shareholders of
BOREALIS EXPLORATION LIMITED

We have examined the consolidated balance sheet of Borealis Exploration Limited as at March 31, 1987 and the consolidated statements of exploratory and development expenses deferred, general and administrative expenses deferred, deficit and cash flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards in Canada, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1987 and the changes in its exploratory and development expenses deferred, general and administrative expenses deferred and cash flow for the year then ended in accordance with generally accepted accounting principles in Canada applied on a basis consistent with that of the preceding year.

The previous year's comparative figures were reported on by other auditors.

Buchanan, Barry & Co
Chartered Accountants

July 24, 1987 (Except as to note 7, which
is of August 14, 1987)

COMMENTS BY AUDITOR FOR U.S. READERS ON CANADA-U.S. REPORTING CONFLICT

In the United States, reporting standards for auditors require the expression of a qualified opinion when the consolidated financial statements are affected by uncertainties in connection with the ultimate recovery of costs such as those more fully referred to in the attached consolidated balance sheet as at March 31, 1987 and as described in note 1(a) of the financial statements. The opinion in our report to the shareholders dated July 24, 1987 is not qualified with respect to, and provides no reference to, these uncertainties since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements.

Buchanan, Barry & Co
Chartered Accountants

July 24, 1987

BOREALIS EXPLORATION LIMITED
(Incorporated under the laws of Canada)
CONSOLIDATED BALANCE SHEET
MARCH 31, 1987

ASSETS

	<u>1987</u>	<u>1986</u>
CURRENT ASSETS		
Cash	\$1,103,406	\$138,974
Accounts receivable	40,814	24,292
Deposits (Note 2)	277,388	58,163
Due from a shareholder (Note 3)	<u> </u>	<u>120,361</u>
	1,421,608	341,790
 PROPERTY HELD FOR RESALE, AT COST		365,000
INVESTMENT IN SHARES		
(Market Value-\$10,619,400; 1986- \$7,750,000) (Note 4)	1,864,000	1,100,000
MINING LEASES, CLAIMS AND EXPLORATORY PERMITS	369,060	315,310
EXPLORATORY AND DEVELOPMENT EXPENSES DEFERRED	8,661,990	5,698,661
GENERAL AND ADMINISTRATIVE EXPENSES DEFERRED	<u>3,528,644</u>	<u>2,383,915</u>
	<u>\$15,845,302</u>	<u>10,204,676</u>

LIABILITIES

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$1,252,381	\$236,034
Due to shareholder (Note 3)	331,349	
Agreement payable (Note 5)	<u>122,000</u>	<u>193,908</u>
	1,705,730	429,942

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 6)	14,427,524	9,873,951
CONTRIBUTED SURPLUS (Note 8)	572,109	513,217
DEFICIT	<u>(860,061)</u>	<u>(612,434)</u>
	14,139,572	9,774,734
 CONTINGENT LIABILITIES AND COMMITMENTS (Notes 11,12)	<u>\$15,845,302</u>	<u>\$10,204,676</u>

APPROVED BY THE BOARD

 DIRECTOR

 DIRECTOR

BOREALIS EXPLORATION LIMITED
CONSOLIDATED STATEMENT OF EXPLORATORY AND DEVELOPMENT EXPENSES DEFERRED
YEAR ENDED MARCH 31, 1987

	<u>Balance</u> <u>March 31, 1986</u>	<u>Additions</u>	<u>Balance</u> <u>March 31, 1987</u>
Geological fees and expenses	\$463,142	\$69,884	\$533,026
Assays	215,299	86,923	302,222
Direct administration	443,020	21,843	464,863
Engineering study	174,383		174,383
Transportation study	11,862		11,862
Northern Mineral Exploration Assistance Program	(9,036)		(9,036)
Salaries and benefits	740,251	555,709	1,295,960
Drilling	774,457	265,576	1,040,033
Contractors' fees	46,092	75,639	121,731
Transportation and travel	687,500	374,371	1,061,871
Camp and accommodation	137,041	53,883	190,924
Equipment rental	108,028	175,842	283,870
Consultants' fees and expenses	1,541,243	430,950	1,972,193
Fuel, materials and supplies	237,258	279,498	516,756
Miscellaneous	38,265	561	38,826
Trenching and geophysical	59,123		59,123
Surveying	24,318	18,974	43,292
Aircraft expenses	<u>148,024</u>	<u>159,842</u>	<u>307,866</u>
	5,840,270	2,569,495	8,409,765
Less expenses relating to prospecting permits relinquished	<u>286,384</u>	<u>160,377</u>	<u>446,761</u>
	5,553,886	2,409,118	7,963,004
Geological, aircraft and sundry equipment less accumulated depreciation	<u>144,775</u>	<u>554,211</u>	<u>698,986</u>
Total exploratory and development expenses	<u>\$5,698,661</u>	<u>\$2,963,329</u>	<u>\$8,661,990</u>

BOREALIS EXPLORATION LIMITED
CONSOLIDATED STATEMENT OF GENERAL AND ADMINISTRATIVE EXPENSES DEFERRED
YEAR ENDED MARCH 31, 1987

	<u>Balance</u> <u>March 31, 1986</u>	<u>Additions</u>	<u>Balance</u> <u>March 31, 1987</u>
Financial, technical and other services under contract	\$118,057	\$-----	\$118,057
Salaries and office services	124,062	170,508	294,570
Interest and exchange	1,271,407	771	1,272,178
Legal and accounting	287,214	109,013	396,227
Specialized services	69,272		69,272
Shareholders' expenses	146,787	20,889	167,676
Depreciation	114,217	257,262	371,479
Professional fees and services	411,478	363,000	774,478
Office, travel and miscellaneous	542,341	312,796	855,137
Guarantee fees	111,725		111,725
Interest income and miscellaneous	<u>(48,344)</u>		<u>(48,344)</u>
	3,148,216	1,234,239	4,382,455
Less amounts recovered from partners	<u>111,325</u>	<u>2,260</u>	<u>113,585</u>
	3,036,891	1,231,979	4,268,870
Less portion of general and administrative expenses considered allocable to interests abandoned or sold	<u>652,976</u>	<u>87,250</u>	<u>740,226</u>
Total general and administrative expenses	<u>\$2,383,915</u>	<u>\$1,144,729</u>	<u>\$3,528,644</u>

BOREALIS EXPLORATION LIMITED
CONSOLIDATED STATEMENT OF DEFICIT
YEAR ENDED MARCH 31, 1987

	<u>1987</u>	<u>1986</u>
DEFICIT, beginning of the year	\$612,434	\$221,310
ADD EXPLORATORY AND DEVELOPMENT AND GENERAL AND ADMINISTRATIVE EXPENSES RELATING TO PROSPECTING PERMITS RELINQUISHED	<u>247,627</u>	<u>391,124</u>
DEFICIT, end of the year	<u><u>\$860,061</u></u>	<u><u>\$612,434</u></u>

BOREALIS EXPLORATION LIMITED
CONSOLIDATED STATEMENT OF CASH FLOW
YEAR ENDED MARCH 31, 1987

	<u>1987</u>	<u>1986</u>
FINANCING ACTIVITIES		
Proceeds from issue of capital stock	\$5,039,666	\$5,578,713
Proceeds from sale of repurchased shares	236,298	
Advances from (to) a shareholder, net	451,710	(515,745)
Repayment of debentures payable, net		(1,232,548)
Cancellation of capital stock	(645,000)	(140,305)
Share issue expenses	(18,500)	(212,348)
Reduction in agreement payable	<u>(71,908)</u>	
	<u>4,992,266</u>	<u>3,477,767</u>
INVESTING ACTIVITIES		
Exploration and development and general and administrative expenses deferred	(3,355,859)	(2,156,562)
Investment in shares	(764,000)	(1,100,000)
Investment in property held for resale		(365,000)
Disposition of property held for resale	365,000	
Purchase of mining leases, claims and exploratory permits	<u>(53,750)</u>	
	<u>(3,808,609)</u>	<u>(3,621,562)</u>
CASH INFLOW (OUTFLOW)	1,183,657	(143,795)
CASH AND EQUIVALENTS, beginning of the year	<u>197,137</u>	<u>340,932</u>
CASH AND EQUIVALENTS, end of the year	<u><u>\$1,380,794</u></u>	<u><u>\$197,137</u></u>
CASH AND EQUIVALENTS IS COMPRISED OF:		
Cash	\$1,103,406	\$138,974
Deposits	<u>277,388</u>	<u>58,163</u>
	<u><u>\$1,380,794</u></u>	<u><u>\$197,137</u></u>

BOREALIS EXPLORATION LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1987.

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the company are stated in Canadian dollars and have been prepared by management in accordance with accounting principles generally accepted in Canada consistently applied. These consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and in light of information available up to July 24, 1987. Significant accounting policies are summarized below:

(a) Mining operations

The properties in which the company has interests are in the development stage and, accordingly, all expenditures (less revenues and amounts recovered from partners and others) have been capitalized or deferred, except that costs and expenses applicable, or considered allocable to areas abandoned and other losses have been charged to deficit. Gains or losses on disposal of mining claims or leases are ordinarily credited or charged to deficit.

The ultimate recovery of the costs of the mining properties and the exploratory and development and general and administrative expenses deferred is dependent upon the company's ability to obtain adequate financing in order to complete the development of the properties, and upon future commercial and profitable production.

BOREALIS EXPLORATION LIMITED

No provision for amortization of the amount carried for mining leases or for exploratory and development and general and administrative expenses deferred is included in the accompanying financial statements.

Depreciation has been provided for on geophysical, aircraft and sundry equipment using the declining balance method at rates varying from 20% to 30% per annum.

(b) Principles of Consolidation

The consolidated financial statements include, in addition to the accounts of the company, the accounts of its wholly-owned subsidiary, Borealis Exploration Incorporated.

(c) Investment in Shares

The company's investment in shares (note 4) has been accounted for using the equity method of accounting where the investment is initially recorded at cost and the carrying value adjusted thereafter to include the company's pro rata share of post acquisition earnings.

(d) Foreign Currency Translation

The accounts of the foreign subsidiary and other foreign denominated transactions have been translated to Canadian dollars using the temporal method on the following basis: monetary items at the rate of exchange at the year end; other assets and liabilities at the historical rate of exchange. The items in the statements of exploratory and development and general and administrative expenses deferred are translated at the average rates of exchange prevailing during the year.

(e) Flow-through Shares

During the year, the company issued flow-through shares through which expenditures were made in accordance with certain provisions of the Income Tax Act (Canada) which provides for the income tax deductions attributed to them to the flow through to subscribers and, accordingly, they have a nil income tax cost to the company. The value assigned to the properties upon which subscribers' funds were expended is the actual dollar amount of the expenditures with such expenditures being deferred as described in note 1(a). Share capital had been recorded based on cash received.

2. DEPOSITS

Government of Canada	\$ 14,261
Deposits with suppliers	<u>263,127</u>
	<u>\$277,388</u>

The deposit with the Government of Canada is a requirement of the Canada Mining Regulations for work performance requirements.

3. DUE TO A SHAREHOLDER

The amount due to a shareholder arises from cash advances and payments on behalf of the company made by a partnership controlled by the president of the company. The amount payable has no stated terms of repayment and bears interest at a chartered bank's prime rate plus 3%. During the year interest charges amounted to \$13,080 which is included in the balance outstanding.

4. INVESTMENT IN SHARES

Noble Peak Resources Ltd	\$1,100,000
Faraway Gold Mines Ltd	710,000
Stratabound Minerals Corp	<u>54,000</u>
	<u>\$1,864,000</u>

Pursuant to an agreement dated March 31, 1986, the company acquired 2,500,000 common shares of Noble Peak Resources Ltd. in exchange for 27,500 common shares of the company. The acquisition resulted in a 55% interest in post acquisition issued shares. Due to the existence of a voting trust in effect until March 31, 1989, the company is unable to exert control and, as such, the accounts of Noble Peak Resources Ltd. have not been consolidated. As at March 31, 1987 the company's interest in Noble Peak Resources Ltd. was 46%.

Noble Peak Resources Ltd. is a deferred exploration company. The company's share of the net book value acquired at the date of purchase is \$210,407.

Net assets acquired consist of:

Working capital deficit	\$(62,531)
Share obligation	(60,500)
Mineral properties and deferred expenditures	<u>1,223,031</u>
	<u>\$1,100,000</u>

Pursuant to an agreement dated March 2, 1987, the company acquired 2,200,000 common shares of Faraway Gold Mines Ltd. in exchange for 30,000 shares of the company and a further 200,000 shares were purchased from a shareholder. As this agreement is binding upon the company the assets have been included in the accounts, but is still subject to regulatory and shareholder approval. The acquisition results in a 44% interest in the common shares of the company.

The company has an agreement with Noble Peak Resources Ltd. and Faraway Gold Mines Ltd. whereby each of them will pay 100% of the exploration and development expenditures to production on certain of the company's mining permits to earn a 50% interest before payout and a 40% interest after payout. The agreement requires expenditures of \$1,500,000 by each and a production decision prior to March 31, 1989 for Noble Peak Resources Ltd. and March 3, 1990 for Faraway Gold Mines Ltd. or the interest in the properties reverts back to the company.

BOREALIS EXPLORATION LIMITED

5. AGREEMENT PAYABLE

	<u>1987</u>	<u>1986</u>
Principal	\$122,000	\$143,000
Accrued interest	<u>--</u>	<u>50,908</u>
	<u>\$122,000</u>	<u>\$193,908</u>

The agreement payable is in connection with services provided by an engineering company. An agreement was reached whereby payment would be deferred until the company obtained funding for the company's mining project. During the year the company negotiated the amount payable down to a total amount of \$152,000 of which \$30,000 had been paid as of March 31, 1987.

6. CAPITAL STOCK

- (a) Authorized capital stock of the company consists of an unlimited number of common shares without par value.
 (b) Issued capital stock of the company consists of the following:

	<u>Number of Shares</u>	<u>Stated Value</u>
Balance, March 31, 1986	<u>2,277,900</u>	<u>\$9,873,951</u>
Issued		
As repayment in part of due to shareholder (note 3)	10,000	320,000
Pursuant to flow-through share agreements	98,654	3,099,827
For cash	13,870	443,840
In exchange for services	<u>27,800</u>	<u>516,000</u>
	<u>150,324</u>	<u>4,379,667</u>
To be issued		
Pursuant to investment in shares (note 4)	<u>30,000</u>	<u>660,000</u>
	2,458,224	14,913,618
Less		
Shares held by subsidiary [note 6(h)]	9,900	18,918
Shares cancelled pursuant to non-completion of agreement to purchase property for re-sale	9,605	365,000
Shares cancelled pursuant to a repurchase option agreement [note 6(d)]	<u>20,000</u>	<u>83,676</u>
	2,418,719	14,446,024
Less share issue costs		<u>18,500</u>
Balance, March 31, 1987	<u>2,418,719</u>	<u>\$14,427,524</u>

(c) Pursuant to a flow-through share agreement the company has reserved 2,602 shares for warrants issuable up to June 1, 1993 at a price of \$.01 per share.

(d) By Board of Directors' resolution dated June 5, 1985, the company has entered into an option agreement dated June 20, 1985 with a major shareholder whereby the company has been granted an option to repurchase 702,533 shares of the company at \$5.00 U.S. per share. The option cost the company an initial payment of \$50,000 U.S. (\$68,500 Cdn.) and called for additional payments every three months, commencing October 15, 1985, of the greater of \$50,000 U.S. or 30% of the excess funds (as defined in the agreement) of the company in order to maintain the option until July 15, 1987.

(e) Subsequent to the year end, the company repurchased 150,000 shares at the option price and extended the option to repurchase 10,000 shares every three months commencing October 15, 1987 at \$7.50 U.S. per share and the balance, at July 15, 1988, at \$8.00 U.S. per share.

(f) By authorization of the company, the president, at his sole discretion, can authorize the issue of up to 12,000 shares in the aggregate per annum to any individual as compensation for work done for or on behalf of the company.

(g) During the year, the company cancelled 9,605 shares which were issued from Treasury in 1986 to purchase investment property.

(h) The company assigned the right to repurchase the shares described in (d) above to its wholly-owned subsidiary, Borealis Exploration Incorporated. As at March 31, 1987, the subsidiary owned 9,900 shares.

(i) A flow-through share issue of the company was issued with a contingent note receivable of \$160,000 for the shares issued. If the market price of the company's stock reaches a certain level prior to June 1993, the note is payable immediately. If the share price does not reach this level by the date indicated above, the note is deemed to be paid in full. The note is secured by shares and warrants of the company and because of the contingent nature of the note, management cannot be certain of its collectability, therefore, it is not reflected in the accounts.

(j) The company has entered into a flow-through share agreement for total proceeds of \$5,000,000 which is to be released to the company as the expenditures are incurred in exchange for flow-through shares and is in effect until December 31, 1987. As at March 31, 1987, 87,717 shares were issued for proceeds of \$2,456,077. Subsequent to the year end, the balance of the funds were received and shares issued for every \$28 of expenditures.

BOREALIS EXPLORATION LIMITED

7. DIVIDENDS DECLARED

On February 9, 1987 the company declared a dividend in kind of one share of Noble Peak Resources Ltd. for every fourteen shares of Borealis Exploration Limited held by the shareholders of record at August 14, 1987 and is payable September 15, 1987.

	<u>March 31, 1987</u>	<u>August 14, 1987</u>
Number of shares outstanding	2,428,619	2,533,834
Dividend factor	<u>+14</u>	<u>+14</u>
Number of Noble Peak shares to issue	173,473	180,989
Market value of shares	<u>X\$3.15</u>	<u>X\$9.25</u>
Contingent dividend payable	<u>\$546,440</u>	<u>\$1,674,148</u>

As the dividend is not payable until September 15, 1987 the company cannot calculate the amount of the dividend as it will be determined by the fair market value of the shares of Noble Peak Resources Ltd. at that date.

8. CONTRIBUTED SURPLUS

During the year, the company redeemed and cancelled 20,000 shares at cost \$140,000 to the company. The excess of cost over the assigned value of the capital stock cancelled in the amount of \$56,324 has been applied to reduce the company's contributed surplus.

During the year, the company's wholly-owned subsidiary also purchased 20,000 shares of the parent company for \$140,000 and then sold 10,100 shares for \$236,298. The excess of the purchase price over the assigned value of the shares has been applied to reduce the contributed surplus by \$50,382. The excess of the selling price over the cost of the shares has been applied to increase the contributed surplus by \$165,598.

9. ECONOMIC DEPENDENCE

In order to finance exploration expenditures, the company has incurred significant liabilities. As the company has not yet established a self-sustaining cash flow from operations, it is primarily dependent upon certain shareholders for financial support (see notes 3 and 10).

10. RELATED PARTY TRANSACTIONS

The company has had numerous financial transactions with the president. These transactions consist of cash advances to the company, personal guarantees to and repayment of some of the company's liabilities and repayment of some bank debts of the company. These transactions are fully described in other notes to the financial statements.

11. CONTINGENT LIABILITIES

(a) A legal action has been instituted by a former consultant to the company. The plaintiff is claiming for unpaid consulting fees of approximately \$76,000 plus costs of litigation and overdue interest. The company has filed a counterclaim for general damages and for specific damages for nonperformance in a timely manner. The outcome of the dispute, in the opinion of management, is that the legal action will be resolved in favour of the company.

(b) The company has agreed to pay any and all taxes which may be payable in connection with 475,000 shares cancelled prior to March 31, 1985. The amount of tax, if any, is not yet determinable.

(c) Under a flow-through share agreement, the company is contingently liable for the penalties and taxes of a shareholder if any expenditures renounced to the shareholder are disallowed. The total possible renunciation of expense to the shareholder under the agreement amounts to \$360,000. Management is of the opinion that none of the expenses renounced will be disallowed.

12. COMMITMENTS

(a) By option agreement dated June 5, 1985 [note 6(d)], the company has granted a gross overriding royalty as defined in the contract to a major shareholder, amounting to a 1/48 interest on minerals and hydrocarbons mined and oil and gas produced on 10,973 acres of mining leases held by the company.

(b) By agreement dated March 1, 1979 and reaffirmed by the option agreement mentioned in note 6(d), the company granted a royalty interest to a major shareholder based on 5% of the crown royalty interest on 10,973 acres of mining leases currently held by the company.

(c) The company has lease obligations on office premises and equipment, commencing December 1, 1986 as follows: 1988 - \$21,500; 1989 - \$21,500; 1990 - \$21,500 and 1991- \$12,500.

13. SUBSEQUENT EVENTS

Subsequent to the year end the company extended an option to repurchase shares as noted in note 6(e).

In April 1987, the company entered into a flow-through share agreement for total proceeds of \$5,500,000 which is to be released to the company as the eligible expenditures are incurred, in exchange for flow-through shares.

14. STATUTORY INFORMATION

The company has nine directors. 10,250 shares (8,500 in 1986) were issued or are to be issued and \$364,000 in cash (\$200,757 in 1986) was paid for a total of \$575,375 (\$384,257 in 1986) as remuneration for services rendered by the directors and senior officers (including the five highest paid employees) of the company.

15. COMPARATIVE FIGURES

Certain prior year's figures have been reclassified to conform with the current year's presentation

Corporate Information

BOARD OF DIRECTORS

John W. Abernethy, P.Eng.
Henry M. Beaumont, Q.C.
Chana B. Cox, Ph.D.
Rodney T. Cox, Ph.D.
Wayne S. Marshall, Ph.D.
Joseph T. Mattson, B.S.
Jasi Nikhanj, M.Sc.
Cameron O. Smith, M.S.
John M. Taylor, P.Eng.

OFFICERS

Rodney T. Cox, Chairman of the Board/President
Jasi Nikhanj, Vice President Exploration
Joseph T. Mattson, Vice President Development/Director,
Operational Planning
Chana B. Cox, Vice President/Director of Planning
David M. Goldenberg, Secretary

COUNSEL

David M. Goldenberg, LL.B.
Beaumont Church
Calgary, Alberta

AUDITORS

Buchanan Barry & Co.
Chartered Accountants
Calgary, Alberta

STOCK EXCHANGE LISTING

Alberta Stock Exchange
Symbol: BSX

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company
411 8th Avenue S.W.
Calgary, Alberta

INCORPORATED

Dominion Charter: August 26, 1968
Dominion Continuance: September 10, 1979

DATE OF ANNUAL SHAREHOLDERS MEETING

September 21, 1987

DIVIDEND DATE:

Record Date: August 14, 1987
Payment Date: September 15, 1987

